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Affluence LIC Fund
Fund Report - February 2022

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Fund Commentary

The Affluence LIC Fund decreased by 1.4% in February. Since the Fund commenced over five years ago, returns have averaged 13.0% per annum, including quarterly distributions of 7.4% per annum. The Fund has outperformed the ASX200 Index over most periods, with significantly lower volatility than the Index.

The month was dominated by the tragic events in Ukraine. This caused global stock markets to fall approximately 5% in February, following January's losses. While the Australian equity market increased by 2.1%, there was a wide range of results under the surface. Commodities saw strong increases while the previous high flying tech names tumbled. Volatility has continued to be high due to the combination of rocketing commodity prices, ongoing anxiety regarding a global conflict and the potential for higher and more sustained inflation. The US Federal Reserve is expected to increase interest rates in March and stop its quantitative easing program. Both actions represent reversals of the easy monetary conditions that have seen asset prices boom.

The Affluence LIC Fund does not have exposure to any Russian stocks. Given that we were well positioned for the volatile conditions that came our way in February, we are a little disappointed with the loss of 1.4% for the month. Several positions contributed to the poor result, though we are confident that some of these losses can be reversed in the coming months. The most significant negative contributor was the Absolute Equity Performance Fund (AEG). Ironically, this LIC runs a market neutral strategy which would usually outperform under challenging conditions. Instead, the manager recorded a portfolio level loss of -10.6% in February, after a loss of 6.2% in January. This, combined with an understandable increase in the NTA discount, led to the share price decreasing by 17%. We had increased our position in AEG before the current drawdown, as the Board announced that they had commenced a "consultation process" to consider future options for the vehicle. We expect this to lead to some type of corporate action that will allow investors to exit at or close to NTA. We have made our views on what should happen very clear to the Board. The NTA discount on 28 February for AEG was 17%, and so should an acceptable solution be announced, there are reasonable prospects of recovering February's loss.

Other losses for the month mainly came from global LICs, including the two VGI Partners LICs (VG1 and VG8) and the Magellan Global Fund (MGF), partly offset by our index hedges. The VGI Partners LICs are at a crossroads. By the end of March, they have promised to announce the results of a review on removing the discount to NTA that has persisted for some time. Unusually, the review is being conducted by the manager, not by independent Directors. The process has been ongoing for more than three months and has coincided with the listed manager (VGI) announcing a tentative agreement to merge with another fund manager, Regal. In our view, the key problem sustaining the discounts is that the underlying portfolio performance for VG1 and VG8 has been very poor. Unfortunately, this has meant that while investors wait for a response from the manager to close the discount, the NTA has continued to fall. There is now a significant conflict between the manager and the interests of investors in the LICs. Management may well be motivated to maintain the level of FUM in VG1 and VG8 to maximise the outcome from any merger with Regal. For investors in VG1 and VG8, barring a stunning recovery in investment performance, the most desirable solutions would seem to involve either a wind-up, delisting, or merger of the LICs with another vehicle. Those solutions are much more likely to result in a significant loss of FUM for the manager. If VGI recommends a path forward that does not allow investors an opportunity to exit at or very close to NTA, the likelihood of shareholder activism will increase substantially. As with AEG, we have made our views on what should happen very clear to VGI management.

At the end of February, the Fund held investments in 24 LICs representing 73% of the Fund, 5% in portfolio hedges and 22% in cash. The average NTA discount for the LIC portfolio at the end of the month was 15%, compared to the 14.8% discount at the end of January.

If you would like to know more about the investment portfolio, including our top holdings and weightings, visit the Affluence LIC Fund page at https://affluencefunds.com.au/alf/ or the Members area of our website. You must be registered as an Affluence Member to view the portfolio.

The Affluence LIC Fund is currently only available to existing clients. If you hold an investment in any Affluence Fund, you can apply to invest in the Affluence LIC Fund. If you already have an investment in the Fund, you can continue to add to your investment. For existing Affluence clients, applications are accepted monthly, and the minimum initial investment amount is $20,000. The cut-off for applications is the last business day of the month, with units issued effective the first day of the following month. Click the "Invest Now" button on our website to apply online or download application forms.

Fund Performance

To 28 February 2022	1 Month	1 Year	3 Years	5 Years	Inception	Volatility
Distributions	0.0%	8.0%	8.9%	8.4%	7.4%	
Change in Unit Price (Capital Growth)	(1.4%)	5.7%	7.1%	4.1%	5.6%	
Affluence LIC Fund Total Returns	**(1.4%)**	**13.7%**	**16.0%**	**12.5%**	**13.0%**	**9.1%**
ASX200 Accumulation Index (AI)	2.1%	10.2%	8.4%	8.5%	9.5%	14.0%
Performance compared to ASX200AI	**(3.5%)**	**3.5%**	**7.6%**	**4.0%**	**3.5%**	

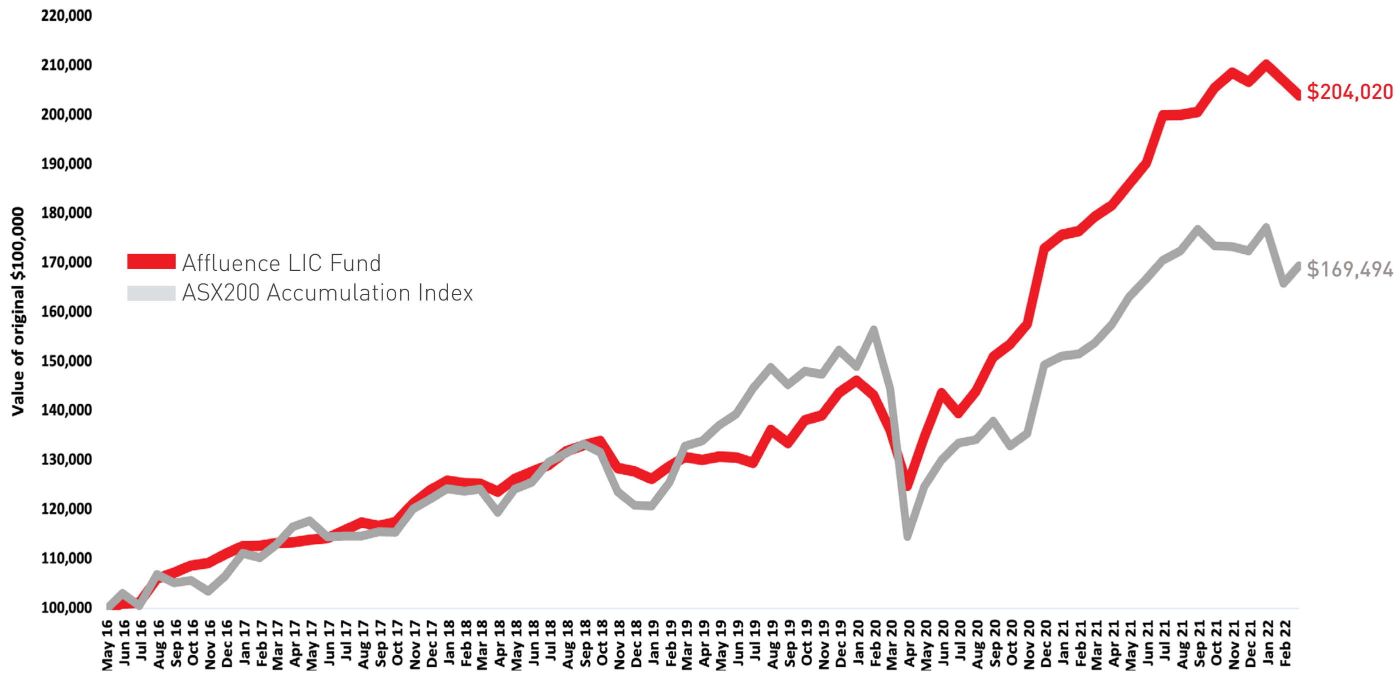
Total returns are net of fees and costs (excluding buy-sell spread) using the mid prices and assume the reinvestment of distributions. Returns of more than 1 year are annualised. Inception date is 3 May 2016. Past performance is not indicative of future performance.

Fund Monthly Return History

	J	F	M	A	M	J	J	A	S	O	N	D	Year
2016					1.0%	0.1%	4.9%	1.1%	1.4%	0.5%	1.6%	1.5%	12.6%
2017	0.1%	0.5%	0.1%	0.5%	0.3%	1.3%	1.4%	-0.6%	0.7%	3.2%	2.2%	1.6%	11.8%
2018	-0.4%	-0.1%	-1.3%	2.1%	1.2%	1.1%	2.1%	1.0%	0.6%	-4.0%	-0.5%	-1.2%	0.3%
2019	2.1%	1.4%	-0.5%	0.5%	-0.1%	-0.8%	5.1%	-1.9%	3.4%	0.8%	3.2%	1.7%	15.8%
2020	-2.0%	-5.0%	-8.3%	7.9%	6.6%	-2.7%	3.2%	4.8%	1.7%	2.7%	9.7%	1.7%	20.2%
2021	0.4%	1.7%	1.3%	2.3%	2.4%	5.1%	0.0%	0.3%	2.4%	1.5%	-0.9%	1.7%	19.6%
2021	-1.6%	-1.4%											

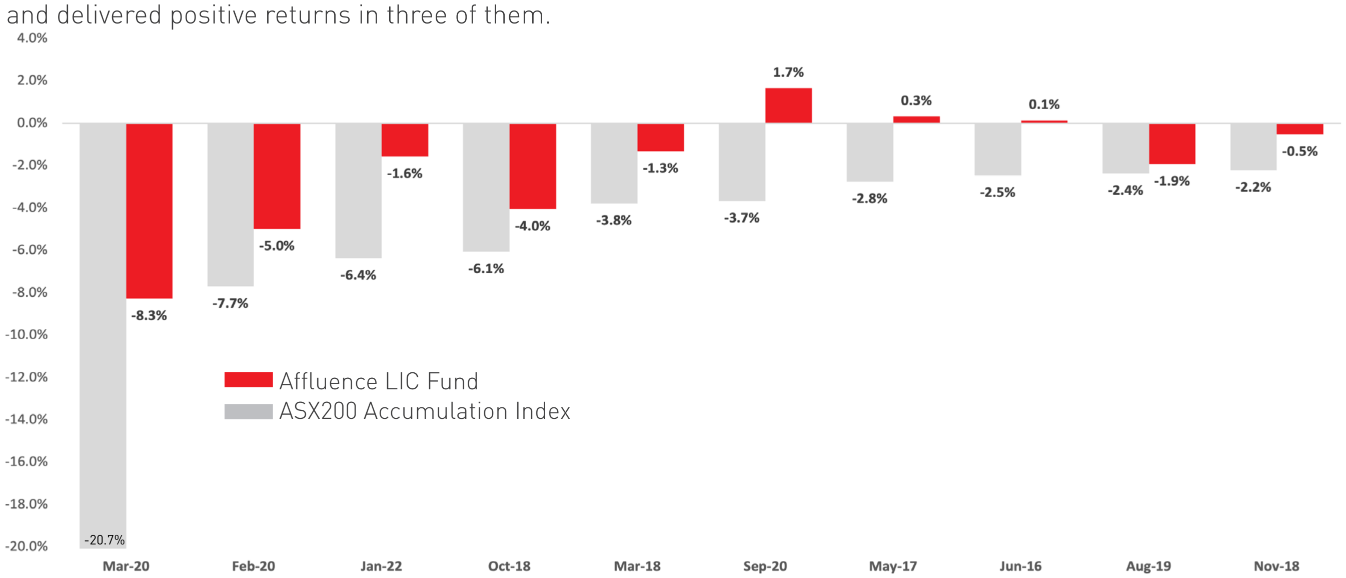
Strongest Month   Positive Month   Stable Month   Negative Month   Weakest Month

Return on $100,000 Investment



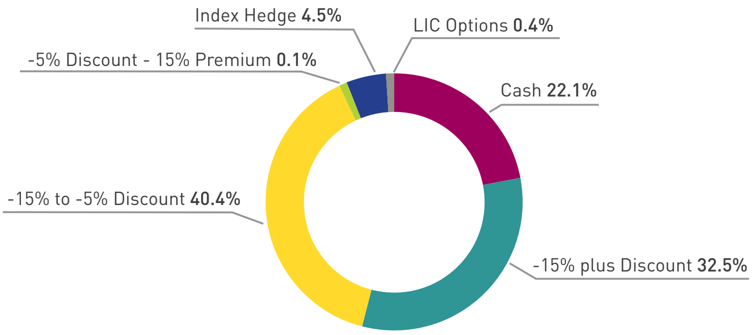
Fund Performance in ASX 200 Worst Months

The below shows the 10 largest monthly falls in the ASX200 Accumulation Index since the Fund commenced, and the performance of the Affluence LIC Fund for that month. The Fund has outperformed the Index in all 10 of the worst months, and delivered positive returns in three of them.

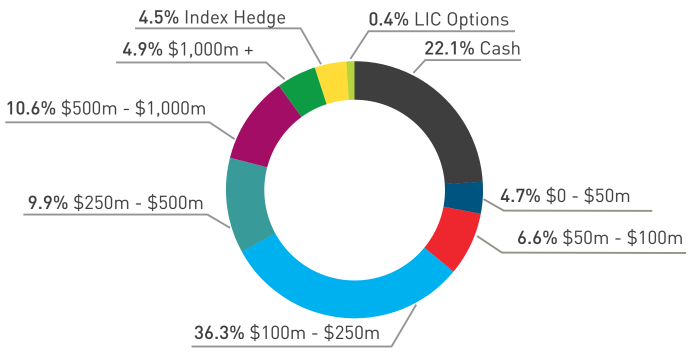


Portfolio Summary

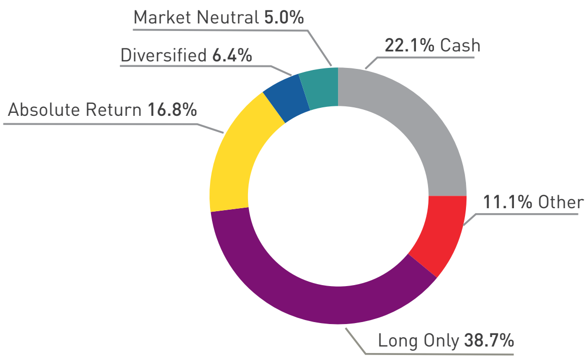
NTA Discount Band



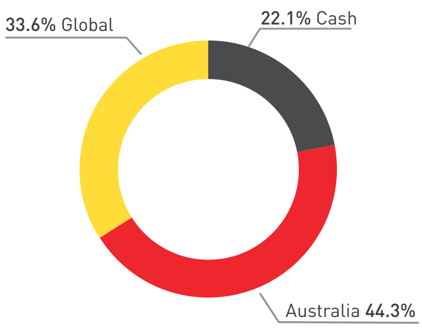
Portfolio by Market Cap



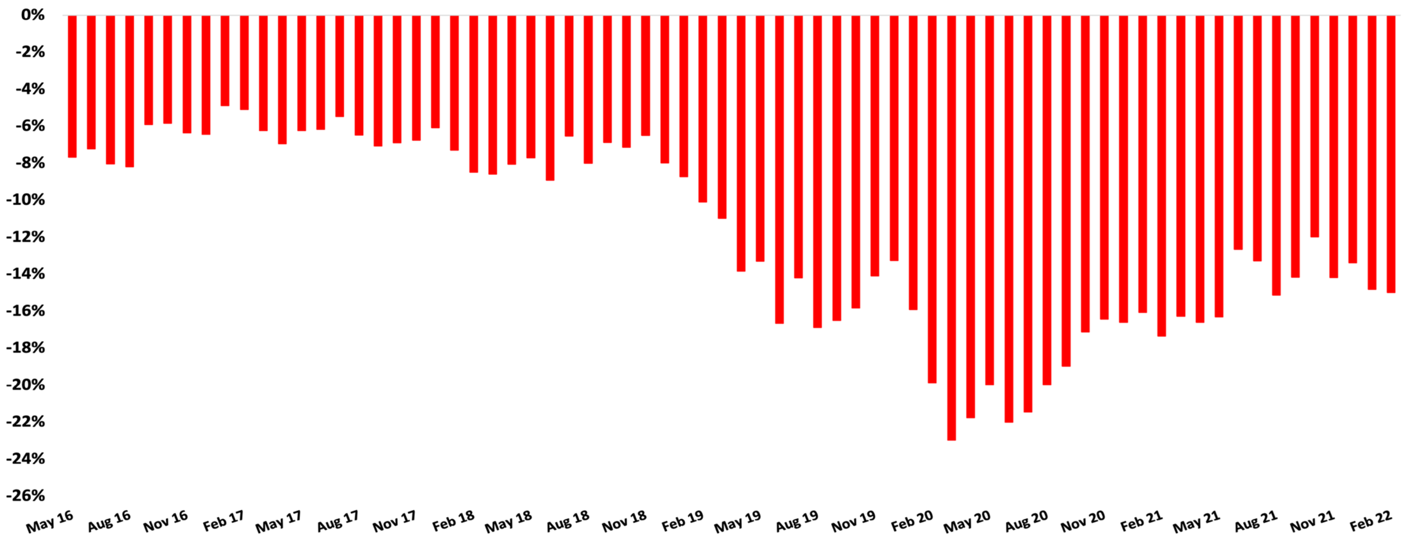
Equities Strategy



Geographic Exposure



Affluence LIC Fund Portfolio - Discount to NTA History



Five Largest Investments

Tribeca Natural Resources Limited (TGF)
Sandon Capital Investments Limited (SNC)
Thorney Opportunities Limited (TOP)
Platinum Capital (PMC)
WAM Alternative Assets (WMA)

Want to know more about Listed Investment Companies (LICs)?

Download our free guide to LICs by clicking here.

What Makes This Fund Different

Traditional Fund Managers	Affluence - Invest Differently
Follow The Herd: Traditional managers are too scared to fail, so they don't succeed. Most don't outperform the index.	**Actively Pursue Out-performance:** From our fee structure alignment to our investment methodology, our strategy targets positive returns and low volatility.
Restricted Product Selection: Commonly places clients into their own managed funds or choose from a restricted list of 'approved' funds.	**Best Of Breed:** We will seek the best LICs, and combine them in a way which cushions against market corrections.
Traditional Asset Classes: Manage large amounts in traditional asset classes (e.g. ASX200 equities), which minimises chances of excess performance.	**Unique Strategies:** We prefer managers who operate in specialised markets with less funds under management and a competitive advantage.
High, Fixed Fees: Take fees regardless of performance.	**No Fixed Fees:** Our fees are 100% performance based.

Key Statistics

Investment Class	Listed Investment Companies
Minimum Investment	$20,000
Suggested Timeframe	At least 5 years
Benchmark Returns	ASX200 Accumulation Index
Fund Value	$20.5m
Entry Price	$1.3773
Exit Price	$1.3745
Annual Distributions	7.00cpu
Distribution Yield	5.1% p.a.
Distribution Frequency	Quarterly
Applications	Monthly
Withdrawals	Monthly
Management Fees	Nil
Performance Fee	12.5% of positive performance
Buy/Sell Spread	0.10%/0.10%

Investment Strategy

The Fund provides access to a diversified investment portfolio of ASX Listed Investment Companies as selected by Affluence. We aim to outperform the ASX 200 Accumulation Index over rolling 3 year periods and to deliver these returns with less volatility than the Index.

The Fund aims to invest in LICs that meet one or more of the following criteria; Alpha Generators – LICs that can outperform the market, Discount Capture – LICs trading at an attractive discounts to NTA, or Event Driven – special situations such as IPOs, capital raisings and other corporate activities.

Contact Us

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Meet The Portfolio Managers

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